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Report Highlights:

This report highlights recent developments in the Canadian chicken and turkey sectors with regard to production and trade and provides forecasts for the remainder of 2005 and for 2006.

Includes PSD Changes: Yes
Includes Trade Matrix: No
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Executive Summary

- The Canadian poultry industry has recovered from the outbreak of avian influenza in early 2004 that effectively closed down a major production area in British Columbia (B.C.) for several months.
- To help alleviate the avian influenza-related supply shortfall situation in B.C., the federal government issued special supplementary import permits to Canadian importers and B.C. processors over and above the existing tariff rate quota. As a result, chicken imports reached a record level. Virtually all of the increase in chicken imports from the United States in 2004 was whole birds imported by B.C. processors.
- After Russia, Canada is the second most important export market for U.S. poultry meat. In 2004, U.S. poultry meat exports to Canada reached a record \$332 million, accounting for more than 15% of total U.S. poultry meat exports to the world.
- Canadian chicken imports from Brazil, which first made their way into the Canadian poultry market in 2002, declined 25% in the first six months of 2005 from their level during the same period last year. Imports of cooked chicken from Thailand, on the other hand, rose 78% during January-June 2005 from the comparative year earlier period.
- For 2005, Canadian chicken production has the potential to reach 1.0 million metric tons for the first time. According to the Canadian Chicken Farmers, the national agency that sets chicken production allocations, production in the January-June period of 2005 was almost 7% above the level for the first half of 2004.
- Canadian turkey production in the first 7.5 months of 2005 rose nearly 10% above the level from the same period a year ago reflecting a higher production target set by Canadian Turkey Marketing Agency. Total Canadian turkey output slipped almost 3% during 2004 as the turkey industry was also impacted by the avian influenza outbreak in British Columbia.
- Since the mid-1990s, both the Canadian chicken and turkey industries have demonstrated strong export growth due to policies that establish production allocations targeted for export and to GOC tariff rate quota allocation policies that permit special supplementary imports by Canadian poultry processors under an import to re-export program. For 2005, increased exports are expected to result in Canada being a net exporter of both chicken and turkey on a quantity basis.

Section I. Broiler Chicken

Production

Despite a major disruption to poultry production in British Columbia (B.C.) in early 2004 due to an outbreak of avian influenza and the subsequent shutdown of a major portion of the B.C. poultry industry, Canadian chicken production reached 946,125 metric tons, almost 2% above the 2003 level. National chicken production was bolstered by the Chicken West Program, a program developed by the Chicken Farmers of Canada (CFC) to ramp up the production in the rest of Canada and ship the resulting product as whole eviscerated birds to B.C. processors, allowing them to maintain their operations and service their customers.

For 2005, Canadian chicken production has the potential to reach 1.0 million metric tons for the first time. According to the CFC, production in the January-June period of 2005 was almost 7% above the level for the first half of 2004. Part of the year over year increase is attributable to lower production in the first six months of 2004 due to the avian influenza situation in British Columbia. Similarly, the CFC reports that chicken consumption in the January-June period of 2005 is 2.5% higher than a year ago. On balance, post forecasts total 2005 chicken output to increase approximately 5-6% over last year and reach about 1.0 million metric tons. For 2006, chicken production is forecast to increase another 1.0-2.0%.

Country Commodity	Canada					
	Poultry, Meat, Broiler					
	(1000 MT)(MIL HEAD)					
	2004	Revised	2005	Estimate	2006	Forecast
	USDA Official [	Estimate[1]	USDA Official [	Estimate[1]	USDA Official [	Estimate[1]
Market Year Begin	01/2004		01/2005		01/2006	
Inventory (Reference)	0	0	0	0	0	0
Slaughter (Reference)	0	0	0	0	0	0
Beginning Stocks	24	24	24	24	20	20
Production	920	946	938	1000	0	1020
Whole, Imports	0	9	1	1	0	1
Parts, Imports	130	91	114	79	0	79
Intra EC Imports	0	0	0	0	0	0
Other Imports	0	0	0	0	0	0
TOTAL Imports	130	100	115	80	0	80
TOTAL SUPPLY	1074	1070	1077	1104	20	1120
Whole, Exports	10	3	5	5	0	5
Parts, Exports	60	73	70	95	0	100
Intra EC Exports	0	0	0	0	0	0
Other Exports	0	0	0	0	0	0
TOTAL Exports	70	76	75	100	0	105
Human Consumption	980	970	982	984	0	995
Other Use, Losses	0	0	0	0	0	0
Total Dom. Consumption	980	970	982	984	0	995
TOTAL Use	1050	1046	1057	1084	0	1100
Ending Stocks	24	24	20	20	0	20
TOTAL DISTRIBUTION	1074	1070	1077	1104	0	1120
Calendar Yr. Imp. from U.	81	80	70	64	0	65

Trade

The global access to Canada's chicken market is determined by a NAFTA formula of 7.5% of the previous year's Canadian production of chicken as published by Statistics Canada. Based on this formula, Canada's chicken tariff rate quota (TRQ) for 2005 is 72,538 metric tons. Imports of broiler chicken cuts, fresh or frozen above the TRQ, are assessed an over access duty ranging from 238% to 249%. However, the NAFTA agreement recognizes a supplementary import system which allows additional imports (at zero duty) when Canadian supplies fail to meet market demand. In addition, the GOC allows special imports of chicken (at the duty free rate) for Canadian processors who manufacture chicken products for re-export and to processors who manufacture processed chicken items (and other products containing chicken) that are not subject to a TRQ (i.e., similar products of U.S. manufacture which enter Canada duty free under NAFTA).

Total Imports

Total Canadian chicken imports from all sources reached a record 100,000 metric tons during 2004. Almost one-third of the total were classified under the "import to re-export" program mentioned above.

Imports from the United States

U.S. chicken exports to Canada exceeded 80,000 metric tons during 2004 well above the global TRQ of 69,700 metric tons reflecting the supply shortfall in British Columbia brought about by an avian influenza outbreak in that province and the associated eradication actions by Canadian government authorities. In the period following the 2004 avian influenza outbreak, the GOC issued special supplementary import permits to importers and B.C. processors over and above the TRQ to help alleviate the supply shortfall situation in that province. Virtually all of the increase in chicken imports from the United States in 2004 was whole birds (more than 8,000 MT) imported into British Columbia to enable B.C. processors to preserve their customer base. Reflecting more normal production patterns in Canada in 2005, U.S. chicken exports to Canada are forecast to decline from the 2004 record level that reflected the B.C. avian influenza-associated production shortfall.

Imports from Other Countries

Canada recognized the poultry meat inspection system of Brazil on August 2002 (see CA2088), but initially very little Brazilian product was imported. However, during 2004, Canada imported almost 18,808 metric tons of frozen chicken from Brazil, almost one-fifth of total Canadian chicken imports. Cooked chicken product was also imported from Thailand during 2004. As shown in the table below, imports of chicken from Brazil in the first six months of 2005 were 25% below the level for the same period last year. Imports from Thailand, on the other hand, rose 78% during January-June 2005 from the comparative year earlier period.

Chicken Imports, By Type

Canadian Chicken Imports, By Type, By Country					
Units: metric tons					
			Chicken Parts		
			Jan-June	Jan-June	% change
	2004		2004	2005	05/04
All Countries	72,525		36,959	33,423	-10%
United States	53,648		28,502	27,041	-5%
Brazil	18,808		8,453	6,381	-25%
			Whole Chicken		
All Countries	8,540		5,804	314	-95%
United States	8,540		5,804	314	-95%
			Prepared Chicken		
All Countries	18,743		9,575	9,383	-2%
United States	17,954		9,243	8,614	-7%
Thailand	788		331	589	78%
			Total Chicken		
All Countries	99,808		52,338	43,120	-18%
U.S.	80,142		43,549	35,969	-17%
Brazil	18,808		8,453	6,381	-25%
Thailand	788		331	589	78%
Derived from World Trade Atlas					

Chicken Exports

In the January-June period of 2005 total Canadian chicken exports reached 57,403 metric tons almost 60% above the level for the first half of 2004. Canadian chicken exports in the first six months of 2005 to all major markets in the United States, South Africa, and the Philippines rose sharply above 2004 first half levels. Combined, the strong increase in Canadian chicken exports and the predicted decline in chicken imports during 2005 could push Canada to a net export position in chicken for the first time.

Policy

Supply Management and the Canadian Poultry Meat Sector

The following summary on supply management in the poultry meat sector was recently published by Agriculture and Agri-Food Canada:

Canadian chicken and turkey production are regulated under national supply management systems at the farm production level monitored by a government oversight body called the National Farm Products Council. The national producer agencies (The Chicken Farmers of Canada and the Canadian Turkey Marketing Agency) in consultation with the processors at the national level, set the total country's production requirements which are subsequently divided among provincial producer marketing boards. For chicken, the national production requirement is determined through a "bottoms-up" approach whereby provincial level market requirements are determined by each provincial commodity board through consultation with their processors. The national production allocation (formally known as the National Allocation Agreement, or NAA) is the sum of the provincial requests.

At the provincial level, the producer boards negotiate prices for live birds and allocate production quota to the producers under their jurisdiction. Supplies of live birds are controlled with penalties imposed for those who exceed their quota. The farm price, regulated by provincial boards, is negotiated with estimated costs of production and market conditions as influencing factors. There is no supply management for ducks, geese, guinea fowl and game birds. Canada's poultry marketing boards are funded through levies paid by producers based on the amount of product marketed.

For chicken the NAA establishes the basis upon which provincial allocation is determined and allocated. The national allocation is established on a rolling 8-week cycle such that there are roughly six allocation periods per year. The basic premises of the NAA are:

It is a bottom-up approach whereby individual processors determine their market needs and filter their requirements upward through the system to establish the national allocation.

Notwithstanding the previous point, there are "safeguards" in place to protect the market from over-production.

There are provincial growth caps of 8% over the adjusted base.

The adjusted base is the previous year's production or allocation, whichever is higher, plus or minus any inter-period quota adjustments.

There is a national cap of 5% over the adjusted base. Canada is broken down into three regions; West, Central and East and there is a regional cap equal to the national cap.

There is a market responsiveness pool set up which will allow one region to surpass the regional cap by an additional 1.5% if necessary.

There are other triggers such as storage stock levels, acceptable producer prices, and import issuances, which will automatically launch a review of the cap.

Export Policy

The CFC established an export policy so that processors within a province could take advantage of the export market using an additional allocation of quota so that they would not be compromising their domestic market needs. The CFC Export Policy is an “umbrella” policy. The CFC Export Policy does not provide any detail as to how individual provincial policies operate. The basic premises of the Export Policy are:

Quota allocation for export is limited to 8% of a province’s domestic allocation.

Processors must sign a commitment that an amount equivalent to their export allocation will be exported.

A volume equivalent to the export allocation must be exported or the volume remaining on the domestic market is subject to a fine of \$0.44 per kilogram.

Primary processed products make up 90% of exports with further processed products the remaining 10%. Dark chicken meat (legs, thighs), and chicken feet (which are in lower demand in the Canadian market), fowl and turkey parts, and further processed products such as mechanically separated meat (MSM), chicken burgers and chicken wieners, are strong components of the export mix.

By the early 1990s, chicken producers and processors were also beginning to develop provincial export programs -- to the point where by 1996 these efforts were beginning to show positive results in the form of strong export growth. In March, 1997, Chicken Farmers of Canada implemented a national export policy framework within which provinces can manage effective programs for the export market.

In the case of both chicken and turkey, administrative arrangements for the establishment of export programs vary from one province to another. In all cases the objective is to facilitate exports in a manner that does not disrupt the domestic market. Canada claims its poultry export policies are consistent with Canada's international trade rights and obligations. Much of the export activity undertaken by the Canadian poultry processors and brokers has been in an effort to find a market for products which are not in high demand on the domestic market. The North American poultry market is predominately a white meat market. As a result, export programs frequently operate in a fashion that allows a certain percentage of the quantity of the product to be exported to be credited and re-allocated by provincial boards in such a manner that the domestic supply ratio of white-to-dark meat is congruent with domestic demand.

Section II. Turkey

Production

Canadian turkey production in the first 7.5 months of 2005 rose nearly 10% above the level from the same period a year ago reflecting a higher production target set by Canadian Turkey Marketing Agency. Total turkey output slipped almost 3% during 2004 as the turkey industry suffered the effects of the avian influenza outbreak in British Columbia. In a normal year, B.C. turkey production accounts for about 11% of total Canadian turkey output. For 2006, Canadian turkey production is forecast to show little change from the 2005 level.

Country Commodity	Canada					
	Poultry, Meat, Turkey					
	(1000 MT)		(MIL HEAD)			
	2004	Revised	2005	Estimate	2006	Forecast
	USDA Official [	Estimate[1]	USDA Official [	Estimate[1]	USDA Official [	Estimate[1]
Market Year Begin	01/2004		01/2005		01/2006	
Inventory (Reference)	0	0	0	0	0	0
Slaughter (Reference)	0	0	0	0	0	0
Beginning Stocks	16	16	14	12	12	14
Production	147	145	147	155	0	156
Whole, Imports	0	0	0	0	0	0
Parts, Imports	7	8	9	10	0	12
Intra EC Imports	0	0	0	0	0	0
Other Imports	0	0	0	0	0	0
TOTAL Imports	7	8	9	10	0	12
TOTAL SUPPLY	170	169	170	177	12	182
Whole, Exports	0	0	0	0	0	0
Parts, Exports	20	16	25	18	0	20
Intra EC Exports	0	0	0	0	0	0
Other Exports	0	0	0	0	0	0
TOTAL Exports	20	16	25	18	0	20
Human Consumption	136	141	133	145	0	147
Other Use, Losses	0	0	0	0	0	0
Total Dom. Consumption	136	141	133	145	0	147
TOTAL Use	156	157	158	163	0	167
Ending Stocks	14	12	12	14	0	15
TOTAL DISTRIBUTION	170	169	170	177	0	182

Turkey Trade

Tariff Rate Quota

Similar to chicken, U.S. minimum access to Canada's turkey market is determined by a NAFTA formula (3.5% of the targeted turkey production announced by the Canadian Turkey Marketing Agency). For 2005, the turkey TRQ is 5,588 metric tons. For turkey meat, the over access tariff rates for 2005 range between 154.5% and 165% but supplementary imports at zero duty are allowed under certain supply circumstances. Similar to the chicken industry, there are provisions to operate the special supplementary import categories, the "import to re-export" program and the "import to compete" program. Canadian importers of turkey must be in possession of an import permit issued by the Department of Foreign Affairs and International Trade. Further information on TRQ product coverage and a listing of the import allocation holders is available on the DFAIT website at: <http://www.dfait-maeci.gc.ca/trade/eicb/agric/turkey-en.asp>

Since the mid-1980s at the provincial level, turkey producers and processors, have worked together to develop business arrangements which would permit turkey to be grown and processed specifically for the export market. These co-operative arrangements in which the Canadian Turkey Marketing Agency has a co-ordinating role, have played an important part in the steady growth of export product sales and in sustaining production levels in a domestic market which have remained stagnant.

Marketing

Canadian importers of chicken must be in possession of an import permit issued by the Department of Foreign Affairs and International Trade. Further information on TRQ product coverage and a listing of the import allocation holders is available on the DFAIT website at: <http://www.dfait-maeci.gc.ca/trade/eicb/agric/chicken-en.asp>

U.S. Poultry Meat Export Growth

After Russia, Canada is the second most important export market for U.S. poultry meat. In 2004, U.S. poultry meat exports to Canada reached a record \$332 million, accounting for more than 15% of total U.S. poultry meat exports to the world (Russia accounted for 24.5%). As mentioned above, the value of U.S. poultry meat exports to Canada during 2005 is expected to decline in the range of 15-20% reflecting a return to more normal trade patterns following record U.S. exports of poultry meat to British Columbia during 2004 due to the avian influenza crisis in that province and the associated supply shortages.

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